Litigation:

There is litigation pending against the leading United States cigarette manufacturers seeking damages for cancer and other health effects alleged to have resulted from cigarette smoking. The Company is a defendant in some of these actions. The Company and the other cigarette manufacturers have successfully defended all similar prior litigation and have not made any payments in settlement. An adverse development in pending litigation might encourage the commencement of similar litigation. It is not possible to predict the outcome of pending litigation; however, Management does not believe that the pending actions will have a material adverse effect upon the financial condition of the Company. The Company will vigorously defend all such actions.

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